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RISK MANAGEMENT FOR SMALL BUSINESSES

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ABSTRACT

Risk management applies to many aspects of a business. Your business is subject to internal risks (weaknesses) and external risks (threats). Generally, you can control internal risks once you identify them. However, external risks may be out of your control Risk is something which is inherent in almost all business functions and decisions. Therefore, it is essential that organizations identify the risk areas in their business as well as implement appropriate risk management strategy to eliminate or reduce the negative impact of a risk as well as keep reviewing the risk management strategy implemented in order to ensure that the risk management strategy implemented is effective. The monitoring of risk becomes all the more imperative in case of small sized businesses as they have access to limited resources and funds and thus tend to be exposed to a greater extent to a number of risks and the related harmful effects. Thus, the report focuses the ways in which small business owners can manage their risks and the strategies that need to be implemented by them in order to deal with the different types of risks.

KEYWORDS: Risk, Business, Insurance, Organizations.

INTRODUCTION

Small to medium businesses are exposed to risks all the time. Such risks can directly affect day to day operations, decrease revenue or increase expenses. Their impact may be serious enough for the business to fail. Most business managers know instinctively that they should have insurance policies to cover risks to life and property. However, there are many other risks that all businesses face, some of which are overlooked or ignored. Every business is subject to possible losses from un managed risks. Sound risk management should reduce the chance that a particular event will take place and, if it does take place, sound risk management should reduce its impact. Sound risk management also protects business wealth. Risk management starts by identifying possible threats and then implements processes to minimise or negate them. Sound risk management can produce the following benefits: lower insurance premiums reduced chance that the business may be the target of legal action reduced losses of cash or stock etc. reduced business down time. This guide identifies some of the risks and areas where risks may emerge and it provides some strategies to manage them.

TYPES OF RISKS

1. Internal Risk
2. External Risk

INTERNAL RISKS

Some of the risks generated internally within the organization include human risks, technological risks, as well as potential risks of damage to physical assets of the company are also risks that are internally generated within the organization. Considering the fact that the size of the organization is small, the negative impact of a risk undertaken can eventually ham-per and bring production to a halt thereby causing huge financial losses and lowering of efficiency levels. Therefore, it is necessary that the risks should be minimized by having appropriate internal controls in place. For instance with regards to the reduction of risks for potential that damage that can be caused to the physical assets maintained by the organization, the company can undertake insurance of an appropriate coverage which shall reduce the risk of loss borne by the company in case of damage to physical assets due to any natural disaster or accident. Another form of internal risk that is being faced by organizations include rise in costs or rise in bad debts considering the fact that cash flows forms the lifeline of businesses as they are part of the working capital without which the firms shall fail to operate and meet its day to day expenses. Therefore, it is important that an organization has a plan to maintain cash flow and recover dues from the debtors on time. It is always important to include an escalation clause in the contracts en-tered into by the organization due to potential rise in the costs of raw material and labor that could eventually impact the overall cost of contract.

Illness and death

A business owner or employee may be ill for a day or be unable to work for months. The death of a person involved in a business poses a risk to continued operations.

Theft and fraud

Most businesses want to have an honest working environment, yet theft by employees and employee fraud are major risks businesses face. Timecard fraud is a risk. Diverting funds to fictitious accounts are accounting risks.

Low employee morale

Unhappy employees can cost money through negligence or through willful acts. For example, an employee who forgets to reorder inventory is a risk to sales because back orders lead to cancellations.

Other Internal Risks

Another source of risk might be the physical plant of your business. Phone lines and other utilities are risks to a business. The appearance of a building such as its walls, windows, and doors may require maintenance to continue drawing customers. Injuries and damages may be caused by your business or your business may receive damage. For example, a storm may cause damage to a business or a business may cause damage by selling a faulty product. Either way, injuries and damages come with a cost. Cash flow is the lifeline of a business. When unexpected costs affect the ability of a business to meet monthly expenses or when credit lines are lost, a business may fail. A plan to maintain cash flow is crucial. Even new financing has its own cost-associated risks. The risks can include the following:

- Appraisal costs
- Closing costs
- Costs for points to buy down rates
- Deposits placed on hold as collateral

EXTERNAL RISKS

The external risks include the factors and changes taking place in the external environment which is beyond the control of the organization and is considered by the management as the risk of doing business. The external risks include business external environment risks such as unfavorable changes in Govern-ment policies that may lead to negative impact upon the business and are not possible for the management to immune the business from such risks and thus, needs to have a flexible business plan in place in order to deal with the changes that might have occurred (Vadiveloo, 2015). Other external risks that the small sized organization needs to take into account are the growing level of competition in the business segment in which the organization is operating. Competition and Market Risks Competition can be tough and market changes can make life for your business tougher if you are not prepared. Consider these risks:

Market changes will cause businesses to change. Competitors advertise sales, wholesale costs go up and down, and oil and gasoline prices affect your costs and those of your vendor.

Business Environment Risks

- Your environment is more than the space you rent or buy. What happens around your business affects it. Here are some examples of environmental changes:
- Federal, state, county, and city laws and ordinances can and will change.
- Weather and natural disasters can shut down a business.

Risk Identification

One of the most important investments you can make in your business is creating a business plan, especially when identifying risks. Creating a business plan will help you assess risk areas, those areas impacting your ability to continue business and to grow. The continuation of your business, in the event of any risk, should be addressed in your plan. Look at anything that could halt, slow, or affect the profit of your business. List these risks, rank them in importance, and look at potential costs. Identifying and assessing risks is something that will require time and should be revisited periodically. Be sure to schedule time in your calendar to identify areas of business risk. Get help from outside sources in identifying areas of risk. Many of these sources are business specific. Some sources for help are listed later in this training. A business plan isn't something to create and set aside, simply to be used later to obtain financing. Once completed, the business plan will become your guide, just like a map.

Risk Evaluation

Once risks have been identified, consider next the impact each risk has on business operations and continuity. Also evaluate risks with regard to potential expansion or future growth. On a day-to-day basis, consult with your operations managers, as they may be more alert to possible risks. In fact, consult with all your key people to enlist their input and communicate to them the risks that you see.

Strengths, Weaknesses, Opportunities, Threats (SWOT) Analysis

Performing an analysis of your business's internal strengths and weaknesses and your business's external opportunities and threats may uncover overlooked risks. To be effective, a strengths, weaknesses, opportunities, threats (SWOT) analysis should be a very candid and honest assessment of the business. Remember, some risks can also be opportunities.

Other Resources

Seek outside help when assessing your business risks. The Small Business Administration (SBA) can provide many helpful resources. If funds permit, consider an auditing firm or certified public accountant (CPA). Talk with your bank or commercial lender about risks for your type of business. You may also want to consult a risk insurance provider. You can check the internet to find similar businesses or professional organizations which may share information on risks specific to your business.

Risk Control Management and Implementation

A written business plan should not only include a list of possible risks, but also include controls and plans to manage risks. Remember—keep your business plan current by readdressing changes in costs and by assessing new risks.

Equipment

Equipment that needs to be repaired may interrupt your business, but insurance or service plans may minimize your costs. For example, if your business is dependent on a high-speed printer or copier, a service plan may be a good way to control the risk of the copier breaking down. Parts for a copier can be expensive and take time to replace. To be prepared, copier vendors will plan for parts and service based on the copiers they have sold to you, and the number of copies you make (service plans for copiers usually require an annual count of copies made).

Business Continuity

Your operations manuals should include a business continuity plan. The plan should provide steps to take for short and long term situations. For example, if your business is unable to operate in its present location, is it possible to use another? If so, your plan should list the steps to take, by job position, for re-establishing operations at the backup site. Create a set of standard operating procedures for completing tasks. Many businesses were started before extensive computer based technology. Software or operating systems providers may be able to assist in disaster recovery plans. Review or discuss these plans with your vendors. In your continuity plan, include the following:

- Staff members' duties
- Staff members' work locations
- Contact names, such as email addresses and phone numbers
- Vendor, utility, and emergency phone numbers
- Employee notification "phone tree" (for example, an owner calls managers and managers call their departments).

Conclusion

Thus, from the discussion above it can be seen that all organizations face risks in operation of a business however, the im-pact may be severe specifically in the case of small sized enterprises due to the limited funding and resources available at their disposal. Therefore, it is essential that the management evaluate and identify potential risks that might impact the organization and take appropriate steps to protect the organi-zation from the same. It can be seen that the organizations are faced by two categories of risks which are internal and exter-nal in nature that need to be dealt with accordingly.

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